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Title:

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association audit program

Place:

[Newark]

Date:

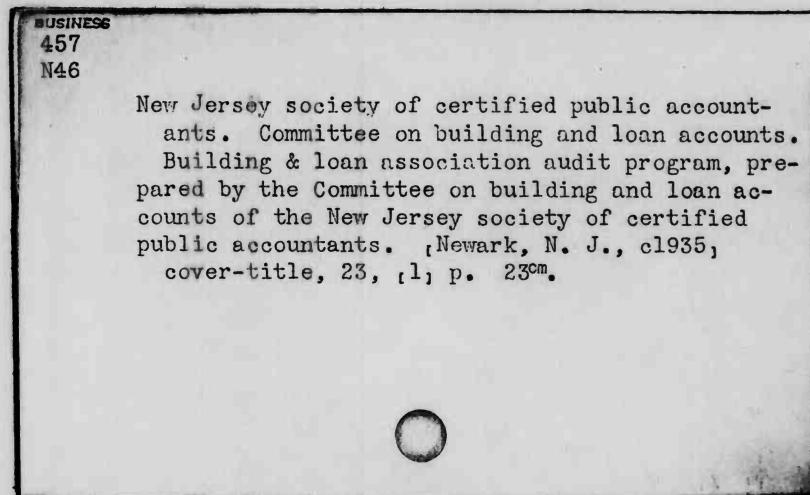
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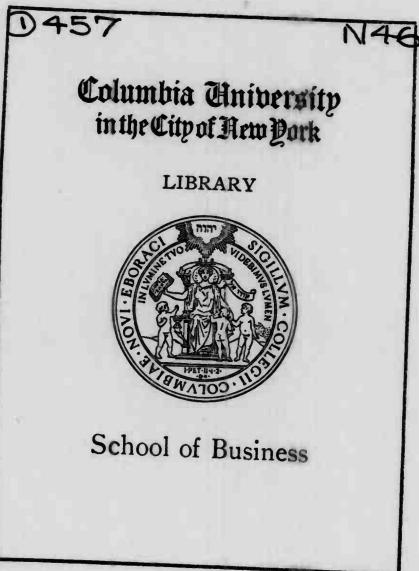
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N.J. Society of C.P.A.
Building + Loan Ass'n
Aud. + Program

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**BUILDING & LOAN
ASSOCIATION**

Audit Program



Prepared by the Committee on Building and Loan Accounts of the
**New Jersey Society of
Certified Public Accountants**

AUDIT PROGRAM
for New Jersey Serial Building & Loan
Associations

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FOREWORD

THE accompanying audit program for New Jersey Building and Loan Associations operating on the Serial Plan has been compiled for members of the New Jersey Society of Certified Public Accountants by its Committee on Building and Loan Accounts.

The lapse of four years since the first edition of this program and the insistent demand for copies of the first printing, long since exhausted, has made a new edition desirable. The financial condition of many New Jersey Building and Loan Associations has changed materially in this period; important court decisions have been rendered; new legislation has been enacted, principally as a result of the recent survey made by the New Jersey Building & Loan League. These require more detailed application by the accountant to his task in the interests of complete compliance with the statutes as well as protecting the investing public.

The plan is to furnish the practitioner with a useful and, it is hoped, a reliable guide for the field that it seeks to cover. Being essentially a program and not a treatise on the subject, its use will constitute a specialization of general audit procedure and not a limitation of it. Accordingly, knowledge and experience in auditing, generally, is a prerequisite to the intelligent use of this program.

Careful practitioners will often find it necessary to modify or amplify the program and will study the special problems of each audit in advance.

The Committee gratefully acknowledges the helpful suggestions offered by members of the Society, and of the assistance given it by Theodore Krohn, Secretary of the Society.

COMMITTEE ON BUILDING & LOAN ACCOUNTS

MORRIS J. HOENIG, *Chairman*
CHARLES L. HUGHES, *Vice-Chairman*
WILLIAM F. ACKERSON
GEORGE M. REUCK
JOSEPH G. DORFMAN
DOUGLASS BESORE

Dated: May 1, 1935.

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Newark, N. J.

STATE OF NEW JERSEY
Department of Banking and Insurance

Bureau of Building and Loan Associations
State House Annex
TRENTON

May 13, 1935

Mr. Morris J. Hoenig, C. P. A.
Chairman, Committee on Bldg. & Loan Accounts
31 Clinton Street,
Newark, New Jersey

My dear Mr. Hoenig:

It was interesting to go through your Audit Program, because it was quickly evident that it has been excellently prepared. The completeness of this program indicates that considerable thought and effort has been given to the subject by thoroughly experienced men.

Efficient application of the principles set forth can only result in a most satisfactory performance of required duties by representatives of Examining Committees. What I particularly like is that this new program covers various operations much more specifically than the old one.

I am, therefore, glad to be able to compliment you and the other members of your Committee.

Yours sincerely,
(signed) Ernest A. Minier
Deputy Commissioner

M:S

GENERAL INSTRUCTIONS

The Building and Loan Act of the State of New Jersey as amended to March 12th, 1935, has provided in Sections 7, 8, 9, 10, 11, 12, 13, 16, 17, 18, 20, 26, 27, 28, 29, 49, 52, 53, 54, 55, 60, 61, 63, 64, 67, 68, 69, 72, 73 and 74, for the accounting and management of associations. These sections, together with the specific and general "Orders" or instructions of the Department of Banking and Insurance should be reviewed, studied and observed throughout the audit engagement.

The mutuality of the shareholders' interests in Building and Loan Associations are safeguarded and regulated by the Constitution and By-Laws of the Association, the controlling provisions of which are prescribed by the Building and Loan Act. The proceedings of the shareholders' and directors' meetings are recorded in the Minute Book. The authority for all transactions emanates from these sources. Constant reference thereto should be had during the progress of the audit.

The Department of Banking and Insurance has, of recent years, prescribed certain restrictions in the operations of many Associations, varying in severity, dependent upon financial conditions of the respective Associations. Such restrictions emphasize that no advantages be permitted to those shareholders and borrowers who terminate, by whatever means, their status with the Association to the detriment of those who continue. In this connection, the responsibility rests upon the auditor to observe that, in accordance with the provisions of the Act and rules and regulations of the Department of Banking and Insurance, proper reserves are established and maintained from profits and, if necessary, with the approval of the Commissioner of Banking and Insurance, that a reduction of the share liability to each shareholder be effected. In cases where the liquidity of the Association is involved, it is essential for the auditor to determine whether the current assets, especially, are employed with full regard to the interests of shareholders according to their status.

The auditor should be alert to discover any omissions of transactions from the books; to ascertain that all income has been included; to observe that all disbursements are proper and have been authorized; to ascertain that all assets of the Association are either in its possession or supported by legal instruments of title and ownership, and to establish that all liabilities are adequately provided for in the accounts.

The audit should be conducted in such a manner as to enable the auditor, if the conditions so warrant, to make the representation in his report that according to the books of account, the statements of Assets and Liabilities, and Profit and Loss as prepared and submitted, correctly exhibit respectively the financial condition of the Association and the results of its transactions for the period.

The order of work outlined in this program should be changed to meet the auditor's particular approach to the engagement and the convenience of the audit staff, and of the officers of the Association.

PROGRAM

(A) INSTALLMENT SHAREHOLDERS' LEDGER— ROLL BOOK

1. Verify additions of all columns of monthly receipts.
2. Prepare recapitulation of monthly receipts and check to Cash Book.
3. Prove dues arrears on each account for period.
4. Prove dues paid in advance on each account for period.
5. Prove interest arrears on each account for period.
6. Prove interest paid in advance on each account for period.
7. Prepare list by account numbers (or check existing list) of dues arrears, interest arrears, dues advances, interest advances, and verify totals with General Ledger Account Balances.
8. Prove monthly interest receipts on each account for period.
9. Prepare Schedule of shares by series, showing number of
 - a. Shares at beginning.
 - b. Shares issued in new series.
 - c. Shares re-instated.
 - d. Shares withdrawn.
 - e. Shares matured.
 - f. Shares lapsed.
 - g. Shares end of year.
10. On above Schedule (9) extend amount of dues, and prove total of dues with balance in General Ledger Account.
11. Prepare schedule and verify by direct communication amount of insurance and taxes advanced for borrowers.
12. Check all journal entries posted to shareholders' accounts.
13. Examine assignments and cancelled certificates for shares transferred during year.

MEMORANDA

**(B) INSTALLMENT SHAREHOLDERS' LEDGER
(PARTIALLY PAID ACCOUNTS)**

1. Verify total of balances at beginning of period.
2. Verify balances in each account and total at end of period.
3. Check credits in each account entered during period to cash book, roll book or journal.
4. Check payments made during the period, and other charges in each account to cash book, roll book or journal.
5. Verify balances at end of period by direct communication.

M E M O R A N D A

(C) CASH BOOK AND JOURNAL

1. Check receipts to deposits per bank statement.
2. Vouch paid checks, notes and vouchers (scrutinize distribution), note checks cashed or endorsed by officers or directors.
3. Reconcile Bank Balance at beginning and end of audit period.
4. Verify Cash Book Balance with Check Book Balance, and reconcile, if necessary.
5. Verify rate of interest and amount of interest charged by bank on loans.
6. Verify interest rebates by bank on payments made prior to due dates of notes.
7. Confirm Bank Balance by direct communication.
8. Confirm notes payable and collateral security, if any, pledged thereagainst, by direct communication; check new borrowed money to determine if within 25% limit prescribed by Section 20 of the Act.
9. Verify additions of all columns.
10. Prepare statement of Receipts and Disbursements.
11. Verify rate and amount of premium charged on mortgage and share loans with Minute Book.
12. Check to borrowers accounts amounts advanced and amounts repaid on insurance and taxes for borrowers.
13. Check and vouch all journal entries affecting shareholders' or mortgage accounts to Roll Book.
14. Vouch and scrutinize all other journal entries, checking postings.
15. Inspect Minute Book for Authorization of disbursements and determine if expenses are within legal limit.
16. Schedule checks drawn for mortgage loans, or other purposes which have been deposited to the account of any trustee (to be used in auditing Trustees' accounts).
17. Analyze all Miscellaneous Columns.
18. Determine if cash disbursements have been applied in accordance with provisions of Section 52 of the Act as amended March 12, 1935.

MEMORANDA

(D) INCOME SHARES

1. Schedule and prove outstanding shares as to number and amount.
2. Schedule all shares paid off during the year, and examine and account for all certificates cancelled, during year.
3. Verify amounts paid on shares withdrawn; also verify amount of dividends paid at time of withdrawal (check period covered as well as calculation).
4. Verify amount of dividends paid for entire year; inspect Minute Book for resolution authorizing payment; determine if rate of dividend is within limit permitted by law (See Section 18 of Act as revised March 12, 1935).
5. Confirm by direct communication all outstanding accounts, as well as all accounts surrendered during the year.
6. Note details in connection with shareholders ownership of more than legal limit of Income Shares.

(E) INSTALLMENT SHARES

1. Prepare Schedule of certificates cancelled and withdrawn during year.
2. Examine and account for all certificates cancelled during year.
3. Verify amount of dues paid on shares withdrawn (and matured) during year.
4. Verify amount of profits paid and profits retained on shares withdrawn and matured during year.
5. Verify by pass-book audit or confirm by direct communication all outstanding accounts as well as all accounts surrendered by maturity, withdrawn or otherwise retired during the year.

MEMORANDA

(F) BOND AND MORTGAGE LOANS

1. Prepare Schedule and prove total of Mortgage Loans (or Mortgage Loan Balances) outstanding at end of fiscal year.
2. Examine files for all necessary papers and documents. (If any mortgages are pledged for loans, verify by direct communication.)
3. Examine minutes authorizing loans made and foreclosures commenced or consummated during the year; examine all loans made since March 12, 1935, to see if they comply with provisions of Section 27 of the Act as amended March 12, 1935.
4. Examine amount of each loan to determine if any are in excess of amount allowed by law.
5. Check all entries for partial and full repayments of mortgage loans. Observe notation on Bond of partial payments.
6. Confirm amount of mortgage (or mortgage Balance) and status of each mortgage account by direct communication.
7. Verify details of transactions where mortgages have been paid off, sold, or assigned.
8. Examine status of each outstanding mortgage, making particular note of those in arrears, under foreclosure, etc.; and verify unpaid taxes, assessments and expenses; and computation of real estate reserve, if any.

(G) SHARE LOANS

1. Prepare schedule of, and prove total of share loans outstanding at end of fiscal year.
2. Examine files for presence of shareholders' note and certificate (or pass-book if the association issues no certificate) pledged and properly executed.
3. Determine if sufficient payments have been made by each shareholder to warrant the amount loaned, within the limit permitted by law.
4. On loans granted during the year determine if each has been properly authorized and compare endorsement on check with signature on note.
5. Check entries of partial and full repayments of share loans made during the year. In case of partial repayment see if proper notation thereof has been made on the note.
6. Confirm amount of loan (or balance) and status of each share loan account by direct communication.

MEMORANDA

(H) REAL ESTATE OWNED

(NOTE: If a separate bank account and cash book are maintained for real estate operations, the deposits and checks disbursed should be verified and the balance reconciled and confirmed.)

1. Prepare Schedule and prove total of Real Estate Owned at beginning of period.
2. Prepare Schedule of Real Estate acquired by foreclosure, deed, purchase or otherwise for the period, verifying all items and figures entering into cost of same.
3. Prepare Schedule of Real Estate disposed of by sale or otherwise, verifying all items and figures entering into selling price, profit or loss, on disposition, reserves, etc., and determine if all legal requirements have been met.
4. Prepare Schedule and prove total of Real Estate Owned at end of period (observe whether cost of association building is within legal limit).
5. Examine deed and certificate of counsel as to title of each parcel of real estate owned.
6. Examine insurance policies for each property owned. Observe whether association is properly and sufficiently protected against fire, owners' liability, etc.
7. Check rent income from rent collector's or manager's records or reports to cash book and to individual property accounts.
8. Verify accounts of rent arrears of each tenant and prepare schedule of same. Verify by direct communication amount of arrears and monthly rental.
9. Verify disbursements on real estate with invoices which have been approved by the Board and/or Real Estate Committee. Determine if each expenditure has been properly charged to the correct individual property account.
10. Examine or analyze disbursements to determine if unpaid items have been properly accrued.
11. Prepare schedule of income and expenses on each property owned, giving effect to accruals, and showing appropriate statistics, as to percentages of yield, occupancy, trends of operations, etc.
12. Determine whether or not, proper real estate records are kept, such as a real estate ledger containing details as to cost, income and expense.

MEMORANDA

(I) TRUSTEES ACCOUNTS

1. Check deposits with bank statements.
2. Vouch disbursements with paid checks and vouchers.
3. Reconcile bank balances.
4. Prepare statement of receipts and disbursements, noting, particularly, receipt of cash by trustees from sources other than association. From the Schedule that was prepared from the Association's Cash Book, trace all items to trustees' records.
5. Reconcile balances in banks with amounts still due or not yet paid on each individual account. (Total balances in detail accounts should agree with balances still in banks to be disbursed or trustees' fees not yet drawn.)
6. Confirm balances by direct communication with the depositories.

MEMORANDA

(J) MISCELLANEOUS

1. Prepare Schedule and prove total of lapsed shares outstanding at end of fiscal year; check shares lapsed during year, verifying amount credited to lapsed share account with shareholder's account; verify amounts paid on lapsed shares withdrawn during the year; examine cancelled certificates and confirm accounts still open and accounts withdrawn during the year by direct communication.
2. On new mortgage loans—verify installments of dues and interest chargeable to borrower from date of first disbursement by the Association.
3. Determine whether an adequate system is followed in checking tax payments on real estate mortgaged to the association.
4. Examine officers' bonds and employees' bonds.
5. Examine liability and fire insurance policies.
6. Examine Robbery and Hold-up Insurance Policies and all other insurance coverage.
7. Determine whether all officers and directors are shareholders as required by law; and if they have taken the oath of office required by Section 7 of Act as revised March 12, 1935.
8. Verify calculation of profits.
9. Verify current year's apportionment of profits and distribution of book profits and withdrawal profits by series, and determine if same is in accordance with provisions of Section 18 of the Act, as amended March 12, 1935.
10. Calculate amounts of reserves required by the Act as amended and by orders of the Commissioner of Banking & Insurance, and determine if proper amounts have been set up for Gross Premiums (Section 68), Contingency Reserves, Real Estate Reserves, Undivided Profits (Section 69).
11. Read the minutes of all directors' and shareholders' meetings held during the year, noting items to be verified in the books of account; verify these by tracing into books of account; observe that all acts of the officers have been either authorized or ratified.
12. Check all accrual items, and all other balance sheet items not mentioned elsewhere in this program, wherever possible examining evidence of same. If necessary confirm by direct communication.

MEMORANDA

(K) GENERAL LEDGER

1. Check all postings and verify additions of all accounts.
2. Prepare Trial Balance and extend working sheet.
3. Prepare Statement of Assets and Liabilities, Profit and Loss Statement, and all necessary schedules.
4. Check retained copy of Association's annual report to State Department with the Statements prepared from the books.
5. Check figures contained in printed report of Association with statements prepared from the books.

MEMORANDA**(L) REPORT**

Prepare a report which sets forth the scope, extent and results of the audit, giving full and explicit comments deemed necessary; comment on the investments and the manner of conducting the Association so as to prevent the occurrence or recurrence of any improper conduct or practice; make recommendations for the improvement of the method of keeping the books and of procedure and internal check.

The statements should be set up in the accepted form, setting forth the figures appearing on the books, together with the corrected figures where changes of importance have been made. This should be followed by detailed schedules of the items appearing on the Balance Sheet.

Additional copies of this publication may be obtained for a nominal charge
at the office of the Secretary, 9 Clinton Street, Newark, New Jersey.

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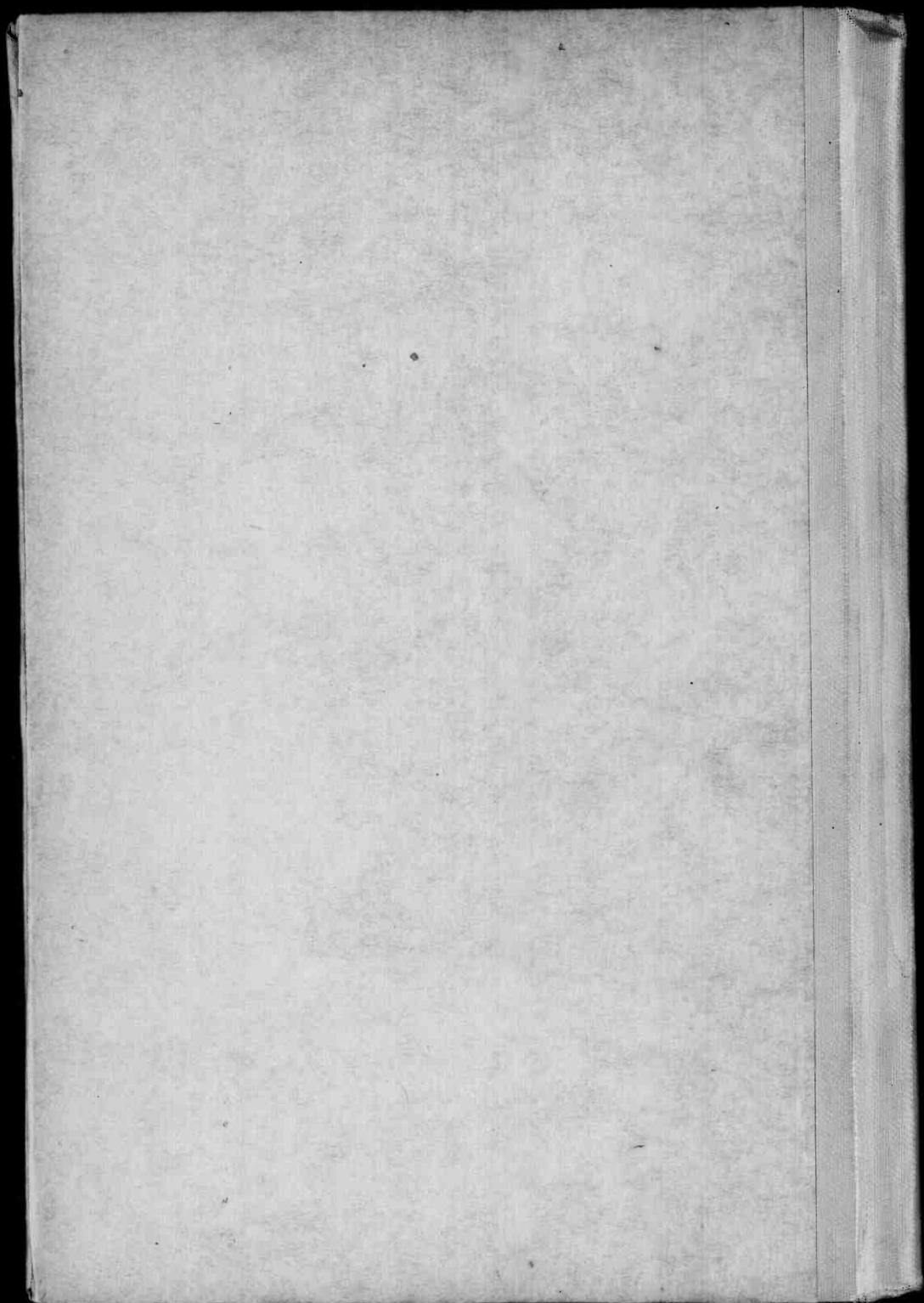
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